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Testimony

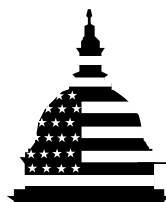
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FINANCIAL AUDITS

American Battle Monuments Commission

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Accountability * Integrity * Reliability

Mr. Chairman and Members of the Subcommittee:

I am pleased to discuss our financial audits of the American Battle Monuments Commission (ABMC),¹ including ABMC's management of the World War II memorial fund. First, though, I will briefly describe legislative initiatives over the past several years to improve financial management across the federal government, and how our financial audits of ABMC fit into that larger context. Second, I will discuss the history of ABMC's financial accountability, focusing specifically on the World War II memorial fund. Third, I will discuss the results of our most recent financial audits.

Legislative Initiatives to Improve Federal Financial Management

The Chief Financial Officers (CFO) Act of 1990, as expanded by the Government Management Reform Act of 1994, requires major federal departments and agencies to annually produce agencywide financial statements.

These legislative initiatives were designed to subject the federal government to the same fiscal discipline imposed for years on the commercial sector and state and local governments and to provide the Congress, agency officials, and others with reliable information through audited financial statements. Financial audits determine the reliability of the financial information reported, provide information on the adequacy of systems and controls used to ensure accurate financial reports, safeguard assets, and report on agencies' compliance with laws and regulations.

The Veterans' Benefits Improvements Act of 1996 requires ABMC, beginning with fiscal year 1997, to prepare agencywide financial statements consistent with the requirements for major departments and agencies and requires GAO to audit them. The statutory requirements put ABMC's financial reporting on a par with major federal departments and agencies and help to institutionalize accountability over ABMC's financial operations.

¹Financial audits and related management letters regarding ABMC's financial statements for fiscal years 1997 to 1999: GAO/AIMD-98-81, February 27, 1998; GAO/AIMD-98-130R, April 28, 1998; GAO/AIMD-99-74, March 1, 1999; GAO/AIMD-99-125R, April 8, 1999; and GAO/AIMD-00-85, March 1, 2000.

Accountability Over the World War II Memorial Fund

In fiscal year 1993, Congress enacted the World War II 50th Anniversary Commemorative Coins Act, directing that a portion of the surcharge proceeds be deposited in a fund for expenses incurred in establishing a World War II memorial. In recognition of the importance of ensuring accountability over a World War II fund, the Coin Act required us to annually audit the revenues and expenditures of the fund to be established in the Treasury.

At that time, ABMC was required to have accounting systems and internal controls that provided effective control over, and accountability for, assets for which it was responsible, but it was not required to prepare agencywide financial statements and have them audited. As a result, ABMC did not undergo an agencywide comprehensive financial audit until fiscal year 1997.

ABMC made significant strides in fiscal year 1997 to strengthen its financial management and comply with the new financial requirements. In fact, ABMC was one of the first federal agencies to comply early with new federal accounting standards developed to implement the CFO Act. One key area was ABMC's compliance with a new accounting standard requiring the reporting of deferred maintenance cost estimates. As a result of complying with the standard, ABMC identified and publicly reported the need for engineering maintenance projects totaling approximately \$10.6 million to maintain real property in acceptable condition. The Congress subsequently provided ABMC with additional funds to help reduce deferred maintenance, which decreased to approximately \$7.5 million by the end of fiscal year 1999.

ABMC combined the World War II memorial fund with other trust funds in the balance sheet for fiscal year 1997. Partly in response to our suggestion, ABMC began providing a separate breakout for the World War II memorial fund in the balance sheet beginning in fiscal year 1998. The separate breakout, which is provided for all of ABMC's financial statements, allows readers to focus on the World War II memorial fund, which now comprises the majority of ABMC's financing sources and assets.

As a result of ABMC's initial efforts, we were able to report that ABMC's fiscal year 1997 and 1998 financial statements we audited were reliable in all material respects and that we found no reportable instances of noncompliance with laws and regulations that we tested. We did identify several financial management concerns, almost all of which ABMC has now addressed and successfully resolved. For example, ABMC has

- strengthened its controls over cash by performing and approving monthly reconciliations with foreign bank accounts and by developing and

implementing written policies and procedures for reconciling its fund balance with the Treasury,

- strengthened its recording of accounts payable and other accruals by developing and implementing specific written policies on those issues, and
- strengthened its controls over goods purchased by better segregating duties among ABMC staff.

Audit Results for Fiscal Year 1999

We gave another positive report on ABMC's financial statements for fiscal year 1999. Specifically, we reported that ABMC's consolidating financial statements as of and for the fiscal year ended September 30, 1999, and comparative consolidated totals as and for the year ended September 30, 1998, were presented fairly in conformity with generally accepted accounting principles. That type of report is referred to as an unqualified or "clean" opinion. We further reported that ABMC had effective control over financial reporting and compliance with laws and regulations as of September 30, 1999, and that we found no reportable instances of noncompliance with selected provisions of laws and regulations we tested.

We did report one condition regarding internal control weaknesses over information technology systems. The weaknesses included, for example, (1) incomplete user documentation for accounting systems used by ABMC's European and Mediterranean Regional Offices, resulting in users having to learn how to use the systems mainly through on-the-job training, (2) certain systems passwords and other access vulnerabilities, and (3) inadequate continuity plans for ensuring successful manual operations and timely recovery of automated processing in the event of a business interruption. We reported that ABMC plans to resolve these weaknesses through the acquisition and implementation of a new accounting system by fiscal year 2001 and through efforts to be taken in tandem with the new system.

We did not consider these weaknesses to be material to the financial statements, primarily because all of the automated accounting and disbursing systems are not accessible from external sources and are not electronically interconnected between ABMC offices. Also, ABMC has a series of manual reviews and reconciliations that must be performed before any financial transactions can be processed and paid. A material weakness exists when the design or operation of internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material to the consolidating financial statements being audited may occur and not be detected within a

timely period by employees in the normal course of performing their assigned tasks.

ABMC's success in preparing agencywide financial statements, and attaining an unqualified opinion on them, are significant milestones in institutionalizing sound financial management and organizational accountability. In contrast, many major federal departments and agencies still cannot produce financial statements that are reliable in all material respects. Agencies continue to be plagued by significant financial systems weaknesses, problems with fundamental recordkeeping and financial reporting, incomplete documentation, and weak internal control, including computer controls.

The major progress that ABMC's management has made to ensure financial accountability should go a long way in assuring the Congress, the public, veterans, donors, and others that contributions to the World War II memorial fund are being properly accounted for and safeguarded. In that regard, we suggest that ABMC consider including its audited financial statements in its annual report. Doing so would allow ABMC to link management, performance, and financial information in one place and better facilitate oversight by the Congress and others.

Mr. Chairman, this concludes my statement. I would be happy to respond to any questions that you or other members of the Subcommittee may have at this time.

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